THE FALL IN GERMAN EXCHANGE

SUMMARY

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THE great war has given rise to many economic phenomena the analysis of which will greatly modify some of our theoretic conceptions. There is a tendency to ignore these changes as much as possible, by explaining the complicated new problems by old seasoned formulas, without careful inquiry into the nature of the new facts. There is no better illustration of this fruitless endeavor than the discussion of the German exchange.

The argument in that case is based on the following facts and assumptions of fact. (1) The paper currency of the German Empire has increased considerably. (2) The bank notes which form the bulk of this currency are not any longer convertible in gold, tho they are legal tender. (3) Prices all over Germany have risen considerably. (4) The German mark valued in foreign currency has declined considerably. Surely, it is said, these are the essential signs of currency inflation and currency depreciation.

This explanation of a very complicated problem may be gratifying from a political point of view. But as an effort in theoretical reasoning, it does not lead to any new results and it overlooks many new facts.

I

The question whether the German currency is overabundant or not cannot be answered at present in a scientific way. We know that the paper circulation of Germany — all sorts of paper included — is now about two billion dollars. We know that the circulation of paper in time of peace varied between 400 to 600 million. That seems to prove pretty clearly that there is a redundant currency. There are a few things, however, which we do not know accurately, but which we ought to take into account.

Gold has disappeared from circulation. We do not know the exact amount of it; we can assume that a considerable part of the gold formerly in circulation has been handed over to the Bank. The visible gold fund of the Bank has grown by 250 million dollars, but it is impossible to state accurately the amount of bank notes which have taken the place of gold formerly in circulation. We know that the area served by German bank notes has increased enormously. It has been estimated that the occupied territories in Courland, Belgium, France, etc., which are served by German bank notes have a regular demand for 250 to 500 million dollars in notes. We do not know to what extent cash payments have taken the place of payments by instruments of credit. The mobilization of an army and the maintenance of huge bodies of men revolutionizes a nation's system of payments. New currency spenders arose everywhere; new centers of receiving money were created. We learn from all countries that an increased demand for currency has arisen, not so much on account of the spending governments, as from the people who receive wages and salaries. There was a serious short-

age of small cash everywhere. Even now there is a continuous demand for very small notes and for small coins; the German government has been obliged to issue large quantities of small coins. We have no sufficient data about the total amount of new currency needed for purchasing and selling. And we can only guess whether the amount of circulating medium issued is redundant or not. The only fact we know with certainty is that there are complaints of a shortage of currency amongst the public. And the government is trying hard to improve the German system of payments by facilitating the use of checks and by improving the clearing house system.

On the other hand we know that prices have risen considerably; they have not risen uniformly. It is possible of course to term any fairly uniform rise of prices "currency depreciation." In doing so we merely gain a term, not an explanation. In studying a currency problem we are interested to know why this so-called depreciation has come about. Is it due to over-issue of paper or to shortage of commodities? The scientific problem begins only after we have proved the existence of this so-called depreciation. I am inclined to think its explanation is just the reverse of that usually given. Prices have not risen because bank notes have been issued, but notes had to be issued because the enormous new demand for goods and a dislocation of the ordinary credit machinery brought about a rise of prices which could not be dealt with except by additional money issues. The purchasing power of a modern government drives up prices all over the world, if the trade routes are free. In a case like Germany's, whose purchasing area is restricted to central Europe, the effect of such a demand would have been simply overwhelming, if price regulations had not been resorted to. As it is, the existing shortage of goods affects the currency considerably,

notwithstanding all government interference. In an ordinary year, fifteen million tons food-stuffs are consumed in Germany; last year there were but ten millions. The total amount of currency needed for the purchase of the smaller crop was probably greater than the amount wanted for the bigger crop.

As long as the war lasts, we scarcely have the necessary data to search out the real nature of the so-called depreciation. But even today there are serious reasons why we should doubt the explanation given in accordance with former experiences.

(1) There is no close connection visible between the amount of bank notes issued and the level of prices. A large share of the bank notes is issued against treasury bills. When a new permanent loan is contracted, treasury bills are not renewed for some time. The number of bank notes in circulation is greatly reduced. As far as I know, no corresponding move in prices has been recorded.

(2) There is no premium on gold and there is no disappearance of gold. Gold disappeared from circulation, but not because it was driven away or because it was hoarded. It was exchanged by the people against bank notes, without a premium. Undoubtedly appeals to patriotism were made in Germany and in France to induce the people to part with their gold. Must we assume that nations have become so patriotic that their citizens do not dare to hide a gold piece and are willing to hand it in for what they consider deteriorated paper? Or is it not easier to assume that they do not believe in the deterioration of their paper in relation to gold?[1]

(3) The foreign exchanges do not show a close correspondence with the amount of circulation issued. When the German bank note issues are contracted, there

[1] In Russia the Imperial bank pays a bounty of 45 per cent for gold handed in.

is no corresponding rise in exchange. This absence of connection is very clearly visible in the case of England. About a year ago sterling exchange in New York was $4.56; today it is $4.76; England's note circulation (bank notes and currency) was £86.3 millions; today it is £76.6 millions, and the gold reserve has fallen from £97 millions to £85.6 millions.[1] But exchange has risen.

I do not wish to say that there is no currency depreciation in Germany, or that this depreciation — if there is such a thing is not due to an over-issue of bank notes. These questions cannot as yet be answered in a strictly theoretical way. But it can be shown what has brought about the fall of German exchange in different countries.

II

To the practical financier, foreign exchange is the price of a payment in foreign currency expressed in his own currency. If the foreign currency is depreciated, he gets it cheap; if it is appreciated, he has to pay extra for it. If both currencies are gold currencies, depreciation and appreciation (discount and premium) are limited by the cost of transporting gold. If the foreign currency is a silver currency, without fixed relation, or a paper currency, the movements of premium and of discount have no fixed limits. In such a case the rate of exchange at a given date is determined by the ratio of maturing payments due to one country, and those due from this country to other countries. The value of imports and services received from abroad constitutes the liability, the receipts from exports and services rendered to foreign countries constitute the assets. Both sides are really valued in gold. The imports to a country with paper currency are fixed in gold in the

[1] September 2, 1915 and August 24, 1916.

exporting country, and the exports are valued in gold at their destination. But for this, the correlation between countries with paper currency and those with a gold currency would be very difficult. The essential distinction between countries with gold currencies and those without them is the method of adjusting the balance of payments. Countries with a real gold currency are comparatively rich countries. They can afford to keep a part of their capital in gold, in the vaults of their banks or in circulation. As soon as their balance of payment is unfavorable, gold flows out automatically. Or if for some reason this is not desirable the country parts with some of her assets. Foreign bills which have accumulated in the banks are sold; or if it is a serious situation which cannot be dealt with in that way, stocks and shares of foreign enterprises are disposed of. An export of capital takes place. This is one way of adjusting the balance. The other way is the flotation of credit in foreign countries. That may be done by the mere prolongation of bills, or by the opening of new bank credits against which drafts may be sold, or by the flotation of a foreign loan. As the countries with an unrestricted gold currency are the rich countries, an unfavorable balance of payments is for them nearly always of temporary character; it can nearly always be adjusted by transitory measures. Countries with a paper currency are poor countries (from a monetary point of view). They have neither gold nor securities to export. This being so, they find it much harder to get credit when in difficulties. In their case an unfavorable balance of payments is adjusted in a different way. Their imports contract, because the cost of getting gold-priced commodities is rising, when paid for in depreciating paper; whilst the proceeds of their exports to gold-paying countries net them more paper at a falling rate.

As a paper currency has always been the currency of a poor country, which had neither gold nor investments nor cheap credit to adjust an unfavorable balance of payment, a falling exchange easily suggests the idea of bankruptcy.

The war has greatly affected the practical foundations for regulating international payments. Oversea communications are cut, goods can no longer move as they moved before. Even where communications are open the free export of gold does not exist anywhere today, not even in the United States. The only communications which are fairly free are the wireless. As our theoretical assumptions are based on free movements of goods, services, gold and securities, the changed condition of affairs must affect them somehow.

The most interesting illustration of this state of affairs is the movement of the foreign exchange in New York at the beginning of the war. Sterling exchange jumped from about par to $7.00. The reason was simple. American liabilities abroad were heavier at that date than American assets; goods and services to adjust the balance could not be sent abroad. Gold could not be exported, securities could not be forwarded; credits could not be opened. But payments matured and the competition of honest debtors who wanted to fulfil their obligations drove exchange to about fifty per cent above par. Currency questions and inflation had nothing to do with it. A second illustration is the fall of English exchange in the summer of 1915. England's circulation no doubt was somewhat redundant. But her gold reserve was considerable; she exported gold freely, she exported securities also. Yet exchange went on falling until she contracted heavy loans abroad and organized the sale of her securities. Since then her exchange has been fairly steady, tho her currency is

expanding regularly. She has to settle a balance of payments getting more unfavorable every day; she has adjusted the rate of exchange by (*a*) exporting gold, (*b*) selling securities, (*c*) contracting loans. These suggestions may make it easier to understand the German situation.

III

Just before the outbreak of the war, the German mark in New York stood nearly at par. It rose immediately to 104 (cable), as large blocks of German-owned securities were sold in New York, and the money from the sales was remitted. After a period of completely interrupted communications, German marks were sold and bought once more. As time went on the mark declined, until the average rate has come to be about 70 cents for four marks. During this period the commercial relations between Germany and the United States became less frequent every month. Since March, 1915, they have nearly come to a standstill.

It is easy to understand the decline in German exchange in New York which took place at the time when the great cotton shipments had to be paid for, and when very few commodities came from Germany. When the cotton movement came to a standstill, mark exchange was quoted at $82\frac{7}{8}$. But there has been a further decline. Today (October, 1916) exchange is 70 cents.[1]

[1] The par in New York is 95.2 cents for four marks. Cables have been quoted as follows:

Week	ending	October 30, 1914	89–88
"	"	February 19, 1915	$85\frac{1}{2}$–$84\frac{5}{8}$
"	"	March 19, 1915	$84\frac{3}{8}$–$82\frac{7}{8}$
"	"	October 29, 1915	$82\frac{1}{8}$–$81\frac{9}{16}$
"	"	November 27, 1915	$80\frac{9}{16}$–$80\frac{3}{4}$
"	"	January 24, 1916	$75\frac{7}{8}$–73
"	"	March 31, 1916	$73\frac{1}{2}$–$73\frac{3}{8}$
"	"	July 22, 1916	$73\frac{9}{16}$–73
"	"	October 3, 1916	$69\frac{7}{8}$

Until the spring of 1915 indirect imports to Germany from the United States via neutral countries were considerable. Whilst direct imports of cotton to the Central

If German-American relations were considered as an isolated phenomenon, the mark would be at a premium today, as it was in the first days of August. Notwithstanding the so-called depreciation of the German currency, the balance of payments is in favor of Germany. But gold cannot be sent to Germany; the United States do not own German securities they could return; Germany could scarcely give credit to the United States. A more detailed statement will show plainly that this is in reality the situation.

German payments in the United States are as follows. (1) Salaries of German officials. (2) Support of stranded Germans and the like. (3) Interest and dividends on American concerns in Germany (insurance companies, etc.). But the fall in exchange makes a remittance to the United States rather expensive; a remittance of $1000 costs 5470 marks instead of 4197 marks: American capitalists have a strong inducement to keep their balances in Germany. (4) Profits on American bank balances in Germany. These balances are small, the profits are likely to be kept in Germany. (5) Interest on American-owned German securities. There may be a few investments made before the war (City of Frankfurt bonds were at one time issued in New York). Some American insurance companies may hold a few German bonds over the amount required for their business in Germany. German citizens in the United States and American citizens with German connections hold some German shares and bonds. There has been a lively interest taken in this country in German war bonds. The yearly interest due on them may be about 2 million dollars (this varies with the exchange). (6) The cost of maintaining the German ships. This,

Powers for example fell by 2¼ million bales, imports to neutral neighbors rose by 1.67 million bales. Germany imported about 1½ million bales. Payments for imported cotton must have been well over one hundred million dollars.

by far the heaviest regular item, is much smaller than commonly assumed.

Notwithstanding the impossibility of shipping goods to Germany, there were heavy purchases of goods some time ago. These goods have been paid for and the payments, when made, have affected the international balance. In the meantime a part of the goods has been sold, at a profit in most cases. What has not been sold constitutes the basis of excellent credits. Not all payments due by Germany to the United States have to be paid when they fall due. By the use of banking credit quite a considerable amount can be deferred.

American payments to Germany include the following items. (1) Interest and dividends on American securities owned in Germany. Tho there has been a good deal of liquidation, many blocks are still held. The total amount cannot be estimated before the census of foreign investments, recently ordered by Germany, has been completed. (2) Remittances to Americans residing in Germany or to Germans interested in American enterprise. (3) Remittances to American officials and commissioners. (4) Dividends and earnings on German-owned enterprises in the United States; for example the wireless stations, profits on bank balances, dividends of insurance companies. — So far as these items go, there is no essential difference between the nature of the assets and that of the liabilities; the favorable balance is established partly by the dividends on German-owned investments, partly by other items.

Other items are somewhat different. (5) There is a decided flow of capital from the United States to Germany. (*a*) Whenever securities are sold, tho dividends of course cease, the capital returns. Owing to the fall in the exchange dollar securities are sold at a large profit. A bond for $1000 which was bought at 90 ten years

ago, cost 3744 marks; it would net 4923 marks today. (*b*) American subscriptions for German war bonds have created a considerable demand for marks. True, the paying of interest brings about a corresponding demand for dollars, but the demand for marks on a five per cent basis, is twenty times the demand for dollars.[1] (6) Besides German dividends from concerns in the United States, dividends from South America and from the Far East, are sent to Germany by way of New York. These items are very considerable. Receipts from the Far East alone, since the war began, compare favorably with the subscriptions of German loans in the United States. (7) In addition to the business transactions there are considerable remittances to Germany of a different character. (*a*) German-American charities have sent a good deal of money to Germany. Since the war began, the Red Cross and kindred associations have remitted over seven million dollars (the Jewish charities are not included). This is nearly double the interest due to America on German war bonds. (*b*) Remittances of German immigrants to their relations at home played no part before the war; as Germany was growing rich, they were no longer needed. But the estates of German citizens who died in the United States, had to be sent home; they contribute a large item. Since the war began, many Germans have been thinking anew of their relatives at home and have forwarded money to them. These sums, however, are small in comparison to what is sent home by Germany's allies, the Hungarians especially. Their remittances during the war have been estimated at eighty millions a year. They affect the German situation considerably. The Austrian immigrants buy crowns in New York; a large part of

[1] The small German loan of ten million dollars, which was floated in the United States in April, 1915, is not taken into account, inasmuch as it has been repaid.

these " crowns " is offered by the German banks, whose clients in Germany were paid in crowns. They have thus a chance of buying dollars. The fall in exchange is a great boon to the Austrian emigrants and their families. At normal rates, their dollar savings are worth 400 million crowns; today their value is 664 million crowns.

It is impossible to make up a complete statement of Germany's " balance of payments " with the United States. But the enumeration here made shows clearly that it must be favorable. None the less, quotations of the foreign exchange show a depreciation of the mark the world over. How can this seeming inconsistency be explained ?[1]

IV

Germany has an unfavorable balance of payments as far as her neutral neighbors are concerned — Holland, Denmark, Switzerland, Sweden and Norway. She has a favorable balance with Austria. She imports a great deal from the other countries, she exports also to them; but the value of her imports is greater than that of her exports. The balance is not redressed by services or sales of securities. It is not easy to get statistical information on these points on this side of the water. Neither Germany nor the neutrals are interested in helping the British blockade with accurate information. On the other hand, the British censor is very anxious to maintain in the United States the fiction that Germany's

[1] Quotations of foreign exchange in Germany have been:

	Par	Summer of 1916
New York	4.19	5.173
Holland	168.	224¾
Scandinavia	112 ½	158¾
Switzerland	81	102⅞
Roumania	81	86⅛
Bulgaria	81	79
Austria	85.06	69.35

foreign trade is cut off. He is not very keen to demonstrate to the American people that his policy discriminates against them. They are not permitted to send goods to Germany, whilst Scandinavia, Holland and Switzerland cannot be prevented from doing so. Whilst detailed information cannot be published before the close of the war, even the daily papers contain sufficient information to show that a large trade is going on. The result of this trade is an unfavorable exchange, and the balance has to be settled by payments. Tho it is impossible to state the balance, it cannot be less than several hundred millions of dollars.

In ordinary times, Germany would pay for imports either by bills on her banks or by remittance in foreign currency. Since mark exchange is subject to fluctuations, it is fair to assume that the foreign sellers try to avoid risks, and prefer payment in their own currency. Germany has to remit guilders, francs, and Scandinavian crowns. She gets them in various ways. (*a*) By selling her own goods; but owing to the state of war, her industries are unable to export on a large enough scale. (*b*) She might render services to her neighbors and draw interest on capital invested in their industries. That has been done in the past. At present her facilities for doing so are restricted. (*c*) She can sell securities; and this has been done in Holland and Switzerland to a considerable degree. But a large part of her securities are sequestered by the Allies for the time being, and others can be sold at a loss only. The Dutch and the Swiss markets cannot take unlimited quantities of foreign securities, and the countries in question were either not indebted to Germany before the war (Holland), or indebted to her in a moderate degree only. (*d*) She might export gold, as has been done in special cases. Since Germany is not a gold producing country and the

unfavorable balance will continue as long as the war lasts, this cannot be done on a large scale. The gold reserve in the bank has always been more than one-third of the outstanding notes; if it were reduced below 600 million dollars, a corresponding contraction of the currency would follow, assuming the ratio of the gold reserve to be maintained.[1] And the nation's business life could not stand such a contraction. (*e*) She could contract loans abroad as the Allies have done. This has been done undoubtedly to some extent, as far as banking credits are concerned. But broadly speaking Germany has preferred a falling exchange to the flotation of a big foreign loan. She prefers a loss of income to a loss of capital.

Such being the case, maturing credits belonging to Germany — in Scandinavia for example — are always smaller than Germany's maturing liabilities to Scandinavia. Scandinavian currencies are at premium. German banks buying Scandinavian crowns in Berlin or in Copenhagen are always in an unfavorable position. They try to buy them in all places where they are offered, spreading their demand, so to speak, over a larger area. Instead of selling all their marks in Copenhagen, Amsterdam, etc., where the demand is limited, Germans bankers sell a part of their marks in New York. There is an American demand for marks surpassing the demand for dollars wanted by Germany for American payments. It is further strengthened by the demand from South America and from the Far East. And instead of selling the Austrian crowns they have received from Austria in Vienna or Berlin, and reselling the marks exchanged against foreign currencies, they sell the crowns in New York for the benefit of the

[1] Germany could of course follow the example of France. A part of the gold reserve of the bank of France is deposited abroad, as security for operations abroad.

Austrian emigrants. They receive dollars from their sales. With these dollars they buy (cables or wireless) Dutch guilders or Scandinavian crowns to settle their balance.[1]

England has tried to prevent this chain of transactions. It is to her interest as a belligerent to make payments hard to Germany. And it is to her interest as a trader to prevent New York from becoming an international market. She has striven hard to prevent the purchase of guilders and Scandinavian crowns for German account. She put pressure on the banks not to sell by wireless. She favors the use of the cable for all remittances. Through her censorship over the cable she is enabled to follow up all transactions, which greatly helps her efforts to get the control of all international payment in London.

If the Scandinavian-American and the Dutch-American relations were considered by themselves, the balance of payments would probably prove to be in favor of America. The balance of trade is very strongly so. In the last half-year before the war, Dutch imports from the United States exceeded Dutch exports to the United States by thirty-seven millions; this excess rose to eighty-four millions in the first six months of 1915; then fell to thirty millions in the first six months of the present year. But Holland is a great shipping country; she has always held a great many American securities; she has bought great blocks of such from Germany. It is quite possible that the Dutch-American balance of payments is favorable to Holland. But it is impossible that the balance of payments of the Scandinavian countries with the United States be favorable to Scandinavia. It is true that they draw a good income from

[1] Tho the yearly payments from and to Germany in New York are considerable, the daily demand for marks is small. Any exceptional transaction or even the news of an intended transaction unsettles the market.

their shipping, whose profits the war has greatly enhanced; their emigrants may send some money home; they may have bought some American securities. The balance of trade, however, is heavily against them.[1] Their exports have remained stationary or have decreased; their imports from the United States have grown by leaps and bounds. The change is partly due to the dislocation of the German trade. They have to get goods directly from the United States which they got formerly from Germany or by way of Germany. In the earlier part of the war much transit business for Germany was done.

Whatever may be the explanation, the main point is this: the monetary obligations of Scandinavia to America are far greater than the American obligations to Scandinavia. The Scandinavian crown ought to be at a discount in New York; but it is quoted at a premium. Here again the explanation is not difficult. The American demand for Scandinavian crowns is increased by the above-mentioned demand on German account. It is probably augmented too by demands on English account, for Scandinavia sends more goods to England then she ever did before; not to speak of the transit trade to Russia, and the services rendered by the Scandinavian shipping lines. Scandinavian exchange transactions in London are often merely nominal; it is possible that London prefers sometimes to settle via New York, and to draw on America's Scandinavian balances.

On the other hand the trade with Germany provides Scandinavia with the means of getting dollars. Some

[1] Excess of imports over exports for the first half-year (in million dollars):

	1914	1915	1916
Sweden	1.5	49	15
Norway	–.7	23	28
Denmark	5.8	44	25

mark bills are probably drawn by Scandinavian banks on German banks and on German traders. If the proceeds are to be used for settling Scandinavian-American debts, it may be more profitable to sell them in New York. Or the German banks sell their own marks as well as Austrian crowns in New York. Their Scandinavian customers may prefer payments in dollars to payments in Scandinavian crowns. In that case the dollar proceeds of the mark sales are credited to the Scandinavian banks, whose dollar balances they increase. It is very likely that England and Russia may make use of similar facilities, bringing about an increased demand for Scandinavian currency, or an increased supply of dollars for Scandinavia's account.[1] For a long time Scandinavian and Dutch currencies have been above par in New York.[2] Rates in New York are far above the gold point. It is true that the war has shifted gold points considerably. The loss of interest on gold while in transit is greater, for transportation takes longer time; shipping rates and insurance charges are higher. But a rate of 28.25 cents to the Scandinavian crown is high enough to cover all transportation risks and to leave a handsome profit on gold shipments. Why are there no such shipments ? The United States are overstocked with gold, the law does not hinder exports.

[1] There are natural limits to such triangular trade. The payment of 10,000 crowns in Sweden cost Germany 15,900 marks (September 16, 1916). On that day 15,900 marks would have purchased 2,912 dollars. If the price of 10,000 Swedish crowns in New York was below 2,912 dollars (leaving cost, commission, etc., out of account) it would be cheaper to settle via New York. If the demand for dollar bills for such purposes were to increase considerably, dollars would go up. The demand for crowns in Germany would fall correspondingly, and with it the price of crowns. The original advantage would soon disappear.

[2]

Denmark par,	26.8c	the crown
Rate, October 3, 1916	28.25c	" "
Highest rate May 3, 1916	30.30	" "
Holland par,	40.2c	the florin
Rate, October 3 (cable)	40.$\frac{7}{8}$	" "
Highest rate January 8, 1916	46	" "

Why cannot debtors pay their debts as cheaply as possible ?

The answer is simple: England does prevent it. She has intimated to American banks that she does not favor gold shipments to Scandinavia. If the banks were to disobey her, the insurance companies would be made to refuse insurance and the regular shipping lines would refuse transport. Thus the only safe way for gold shipments is closed. It would be too hazardous to send gold owned by a Scandinavian Bank and insured by a Scandinavian insurance company in a tramp steamer across the sea. Gold is contraband and cannot be earmarked so as to retain its identity. It is scarcely likely that it would ever reach its destination; it would be detained as "suspect." Moreover, the Scandinavian banks are not willing to run any risks for getting gold. Scandinavia is overloaded with gold, the Scandinavians themselves do not suffer from the appreciation of their currencies.[1] In fact, the rise in their exchange makes payments abroad easy for them. Their exports, it is true, might be checked by the rise in the value of their currency. But they do get monopoly prices in any case for what they export under present circumstances. The real sufferers are the debtors of Scandinavia, America, Germany and even England to some degree. England has in fact tried to regulate her Scandinavian exchange by contracting a currency loan in Norway, against which her importers can draw.

The impossibility of forwarding gold to a country saturated with gold ought to act as a premium on imports into Scandinavia. Scandinavia is willing to pay

[1] The specie holdings have been:

Denmark	July 31, 1915	5.95 mill. £ gold;	July 31, 1916	8.97 mill. £ gold
Sweden	August 15, 1915	6.3 mill. £ gold;	August 12, 1916	9.2 mill. £ gold
Norway	August 15, 1915	3.4 mill. £ gold;	August 15, 1916	6.3 mill. £ gold
Netherlands..	August 14, 1915	31.4 mill. £ gold;	August 12, 1916	49 mill. £ gold

for goods; prices are high and dollars are cheap. But here again the Allies interfere. They have restricted the neutrals by the so-called process of "rationing," which limits the quantities of American produce they may import. In this way a very curious situation has arisen. Gold and services rendered by Scandinavia to other countries (Germany included) cannot be paid by those other countries in gold. They cannot be paid freely in services and in goods. They cannot be settled by the sale of Scandinavian securities, because the amount held abroad is not large enough. Scandinavia is not rich enough to grant her customers great permanent loans. The result is that the mark, the pound sterling, and the dollar, are depreciated when measured in Scandinavian currency. The depreciation of the American dollar has been over 14 per cent. And the cause of depreciation is not that there is an excess of paper currency at home. American currency was never before so well secured by gold as it is today. Exchange is dislocated between neutral countries with a gold currency, because the ordinary methods of adjusting exchange are unavailable, and because it is not considered advisable to proceed to extraordinary means, such as the creation of a large credit for the United States in Scandinavia.

The situation of German exchange is of course somewhat different. Its main feature is that the balance of payments of Germany with all countries is unfavorable. An excess of imports over exports has to be settled, which cannot be compensated by services, by gold exports, by exports of securities, or the contraction of foreign loans. As some of the imports wanted in Germany are goods, which have to be imported regardless of cost, whilst the capacity of production for export is limited by the exigencies of the war, the automatic

settlement of the unfavorable balance by contraction of imports and expansion of exports is not feasible. A scientific study of the exchange phenomenon would gain a great deal if it started with the assumption that interrupted communications in the widest sense of the word are responsible for what has happened, and not over-issue of bank notes.[1]

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[1] Half a year ago some stress would have had to be laid on the influence of a "bear" movement on German exchange. If there is a chance of a future fall in exchange, it is profitable to sell marks for future delivery. The seller does not possess the marks in question; he hopes to buy them later on at a cheaper price. He is interested in a fall in the market. This game was freely indulged in by German speculators. In New York a well-organized attempt was made by banking representatives of the Allies to participate in it. Today short sales are risky. The sale of German marks and of Austrian crowns is regulated by a committee of German and Austrian banks controlled by the Imperial Bank. Very little other material can come into the market. Moreover the handling of the foreign currencies in the hands of Germans is done in a similar way. This being the case, short sales of German currency are dangerous; the sellers might be cornered.